

**LLOYDS**  
BANKING GROUP



# FIXED INCOME INVESTOR PRESENTATION

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HY 2018

# Strong and sustainable earnings continue to demonstrate the strength of the business model



- **Significant business progress with strong start to the Group's latest strategic plan**
  - Successful delivery of key initiatives including Open Banking, the planned integration of Zurich and MBNA and launch of Lloyds Bank Corporate Markets
  - Strong start to the latest strategic plan with increased strategic investment together with reduced underlying cost base
  - Continued growth in targeted segments, including SME, consumer finance and financial planning & retirement
- **Strong financial performance with continued growth in statutory and underlying profit**
  - Statutory profit after tax up 38%, EPS up 45% and return on tangible equity of 12.1%
  - Strong pro forma capital build of 121bps, including 25bps from the sale of the Group's Irish mortgage portfolio; 30bps reduction in the Group's Pillar 2A requirement
  - Increased interim ordinary dividend of 1.07p
- **Improved guidance for 2018**
  - Net interest margin for the full year now expected to be in line with H1
  - AQR now expected to be less than 25bps
  - Capital build now expected to be c.200bps, pre-dividend

# Financial performance – strong and sustainable statutory performance



Net income	£9.0bn +2%
Cost:income ratio (incl. remediation)	47.7% (4.2)pp
Cost:income ratio (excl. remediation)	44.9% (0.9)pp
Underlying profit	£4.2bn +7%
Statutory profit after tax	£2.3bn +38%
Earnings per share	2.9p +45%
Return on tangible equity	12.1% +3.9pp
Capital build (pre dividends)	121bps

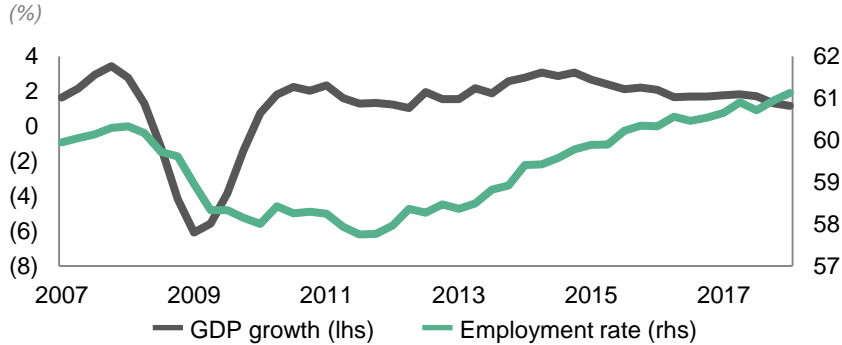
- **Strong statutory profit of £2.3bn up 38%**
  - Net income up 2% with increased NII and stronger Other Income in Q2; NIM increased to 293bps
  - BAU costs<sup>(1)</sup> down 4% (or 7% excluding MBNA) driving flat operating costs despite increased investment and inclusion of MBNA cost base
  - Positive jaws of 8% (2% excluding remediation); market leading cost:income ratio of 47.7% (44.9% excluding remediation)
  - Credit quality remains strong with an AQR of 20bps
- **Earnings per share up 45% to 2.9p reflecting improved profitability**
- **Statutory RoTE of 12.1%, up 3.9pp**
- **Strong pro forma capital build of 121bps (including 25bps from the sale of the Group's Irish mortgage portfolio)**

1 – BAU costs reflect operating costs, less investment expensed and depreciation.

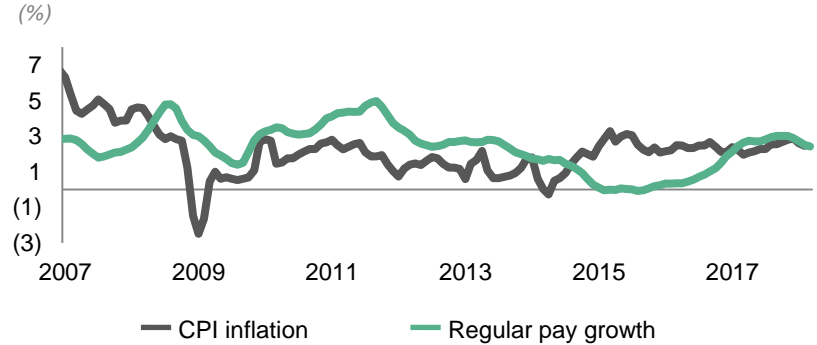
# UK economy remains resilient



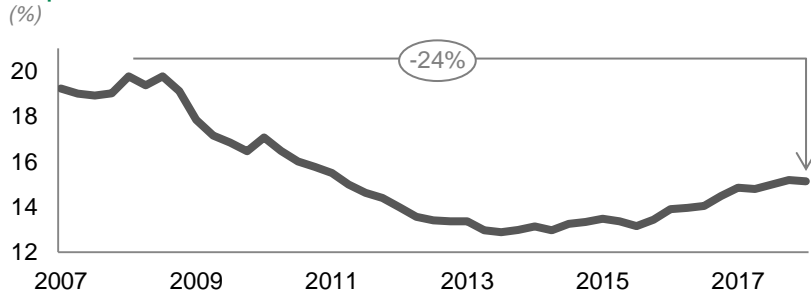
## Employment rate<sup>(1)</sup> and GDP growth



## CPI inflation and pay growth<sup>(2)</sup>



## Consumer credit balances as a proportion of household disposable income<sup>(3)</sup>



- Economic growth recovering from weather-impacted first quarter
- Consumer incomes supported by record employment rate as real pay squeeze continues to abate
- Consumer debt service ratio down 24% from pre-crisis
- Global growth positive for UK exports
- Expect one rate rise per year 2018 to 2020

# Transformational strategy targeting significant customer and business enhancements

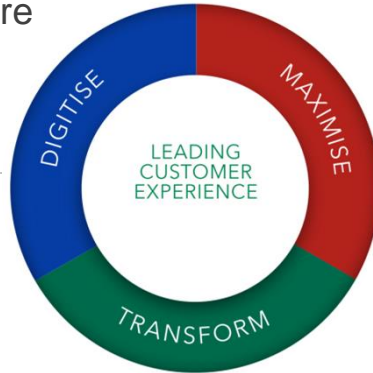


## DIGITISING THE GROUP

- **End to end transformation** covering more than 70% of our cost base
- **Simplification** and **progressive modernisation** of IT and data architecture

## LEADING CUSTOMER EXPERIENCE

- **#1 UK digital bank**, with Open Banking functionality
- **#1 Branch network**, serving complex needs
- **Data-driven and personalised** customer propositions



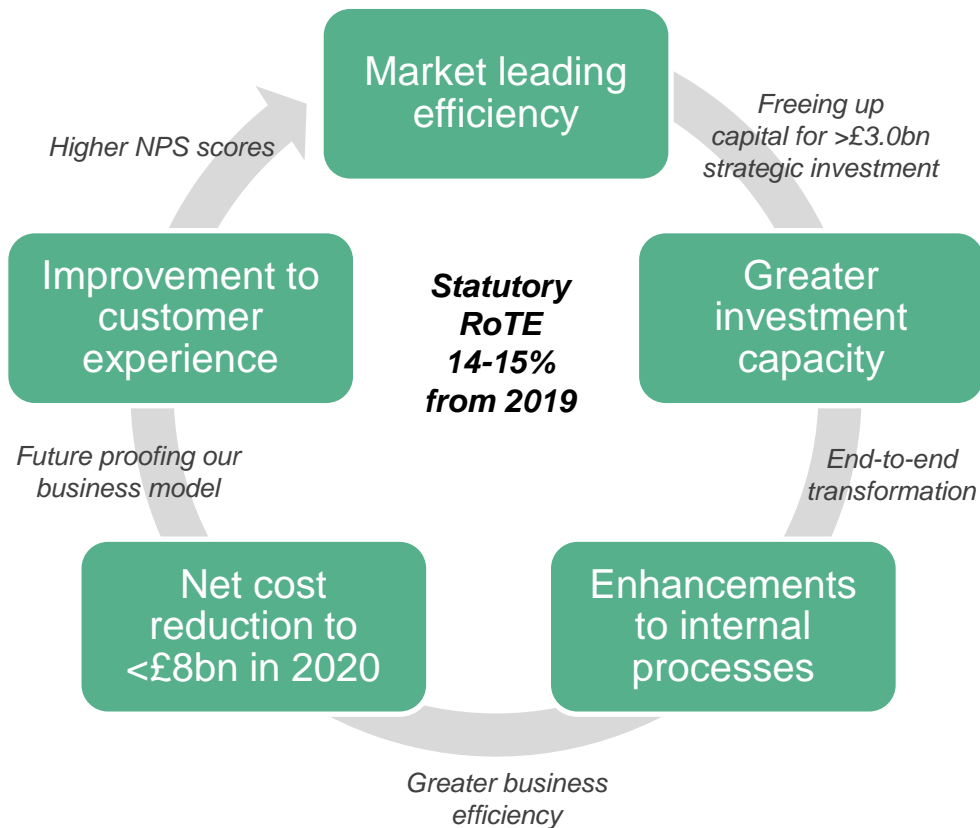
## MAXIMISING GROUP CAPABILITIES

- **£6bn loan growth in start-ups, SME and Mid Market** businesses
- Sole integrated UK banking and insurance provider targeting **>1m new pensions customers** and **£50bn AuA growth**

## TRANSFORMING WAYS OF WORKING

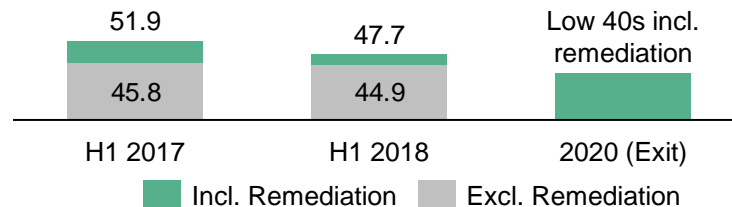
- **More than half** of transformation delivered through **Agile methodology**
- **Biggest ever investment in our People with 50% increase** in colleague training and development to **4.4m hours p.a.**

# Cost discipline enables greater investment capacity and increased returns



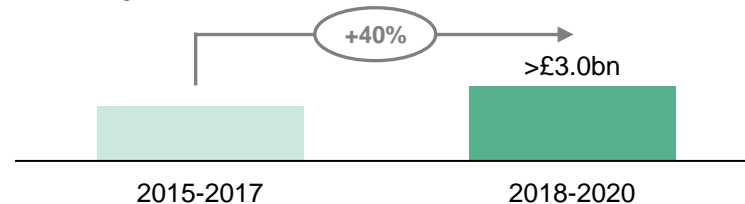
## Market leading efficiency position

Cost:income ratio<sup>(1)</sup>, %



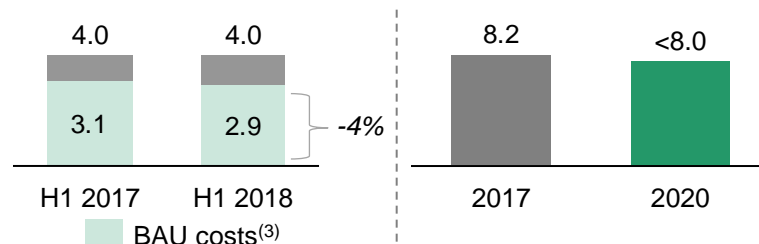
## Greater investment capacity

Total strategic investment



## Committing to net cost reductions

Operating costs<sup>(2)</sup>, £bn



# Financial Performance



# Strong financial performance with continued growth in profits and returns



(£m)	H1 2018	H1 2017	Change
Net interest income	6,344	5,925	7%
Vocalink	–	146	–
Other Income	3,124	3,202	(2)%
<b>Total income</b>	<b>9,468</b>	<b>9,273</b>	<b>2%</b>
Operating lease depreciation	(497)	(495)	0%
<b>Net income</b>	<b>8,971</b>	<b>8,778</b>	<b>2%</b>
Operating expenses	(4,024)	(4,018)	0%
Remediation	(257)	(540)	52%
<b>Total costs</b>	<b>(4,281)</b>	<b>(4,558)</b>	<b>6%</b>
Impairment	(456)	(268)	(70)%
<b>Underlying profit</b>	<b>4,234</b>	<b>3,952</b>	<b>7%</b>
<b>Statutory profit before tax</b>	<b>3,117</b>	<b>2,544</b>	<b>23%</b>
Net interest margin	2.93%	2.82%	11bp
Cost:income (incl. remediation)	47.7%	51.9%	(4.2)pp
Cost:income (excl. remediation)	44.9%	45.8%	(0.9)pp
Asset quality ratio	0.20%	0.12%	8bp

- **Underlying profit increased 7% to £4.2bn**
- **Net income increased 2% to £9.0bn**
  - NII up 7% with improved margin of 2.93%
  - Other Income of £3.1bn including benefit of a good second quarter of £1.7bn
- **BAU costs<sup>(1)</sup> down 4% (or 7% excluding MBNA) driving flat operating costs despite increased investment and inclusion of MBNA cost base**
  - Improved cost:income ratio, both including and excluding remediation
- **Credit quality remains strong**
  - Gross AQR in line with full year at 27bps; net AQR up to 20bps due to expected lower releases and write-backs
- **Statutory profit before tax increased 23% to £3.1bn**

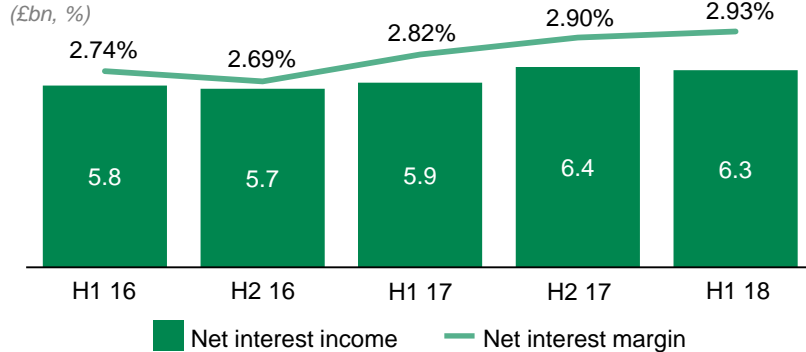
1 – BAU costs reflect operating costs, less investment expensed and depreciation.



# Net interest income increase driven by improved margin and AIEA growth



## Net interest income and margin



- **Net interest income up 7% to £6.3bn driven by an improved margin of 2.93% and higher AIEAs**

- Lower funding and deposit costs more than offset mortgage pricing pressure
- Asset margin benefiting from positive mix change, including benefit from MBNA

- **NIM for 2018 now expected to be in line with H1; continue to expect resilient NIM through the plan**

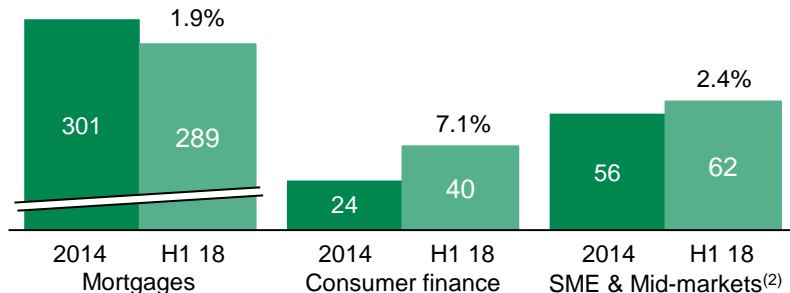
- **Medium term outlook underpinned by approach to managing margins**

- Management of mortgage margins
- Asset growth in higher margin, targeted segments
- Further opportunities to improve liability mix, reprice deposits and targeted growth
- Strong deposit franchise generating increased contribution from the structural hedge
- Improved credit ratings

- **Positively exposed to rising interest rates**

## Key product mix and gross margin<sup>(1)</sup>

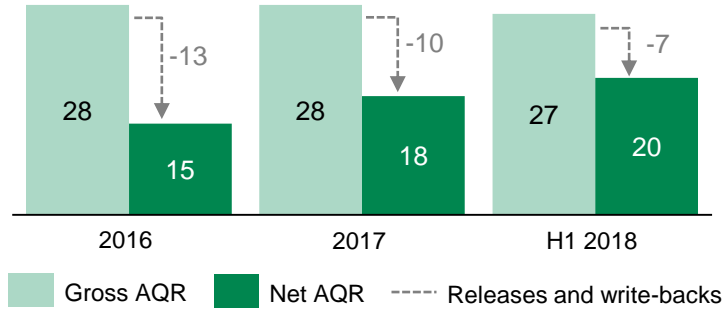
(Book size £bn, Gross margin %)



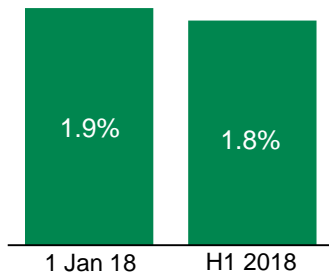
# Credit quality remains strong reflecting a continued prudent approach to risk



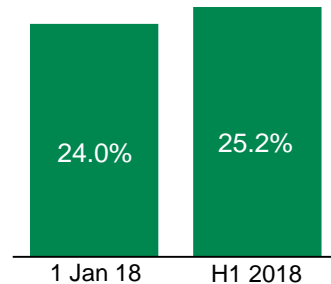
## Asset quality ratio (bps)



## IFRS 9 stage 3 as a proportion of loans and advances



## Stage 3 ECL as a proportion of drawn balances<sup>(1)</sup>



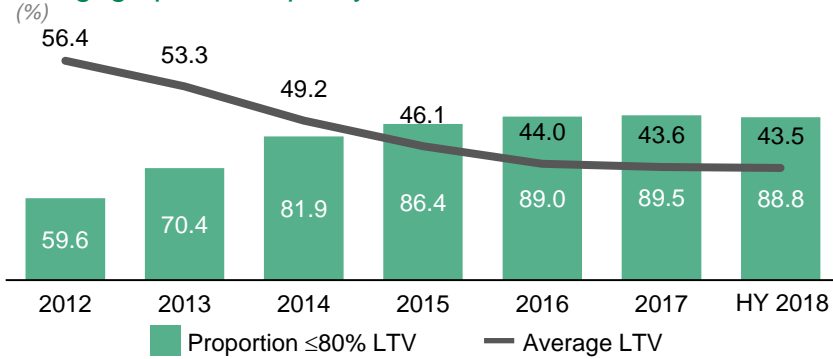
- **Gross AQR lower at 27bps with net AQR up due to lower releases and write-backs**
- **Underlying credit portfolio remains stable with no overall deterioration in credit risk indicators**
- **Continuing to benefit from low risk approach**
  - Strong mortgage affordability and LTV profiles
  - Low risk consumer lending with prudent residual value provision and prime credit card book
  - Commercial portfolio optimisation – diversified and high quality
  - Minimal non-core balances and Run-off portfolio (less than £4bn) now subsumed within divisions
- **Stage 3 loans down to 1.8% of total loan book while increasing coverage to 25.2%**
- **AQR now expected to be less than 25bps in 2018**

1 – Stage 3 expected credit loss allowance as a proportion of stage 3 drawn balances.

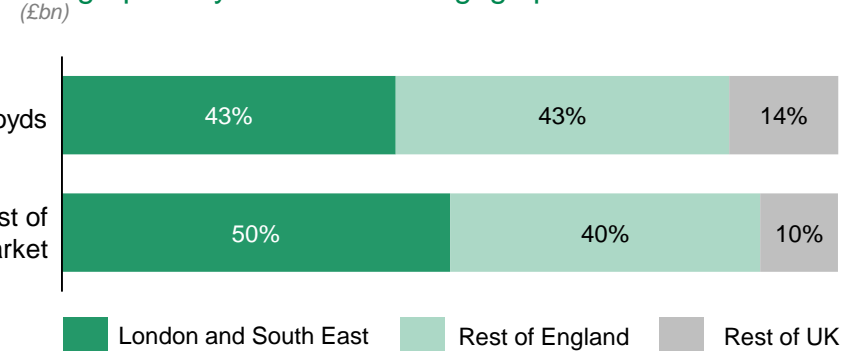
# Credit quality – diversified, high quality £290bn UK mortgage portfolio



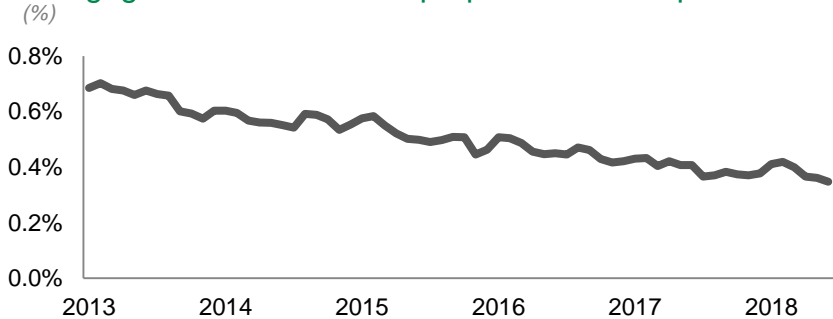
## Mortgage portfolio quality



## Geographically diversified mortgage portfolio<sup>(1)</sup>



## Mortgage new to arrears as proportion of total portfolio



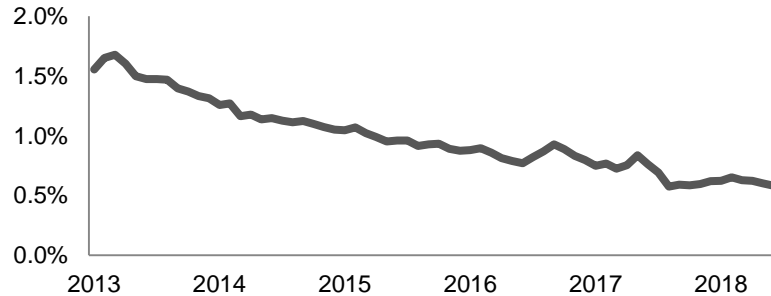
- **High quality portfolio with low average LTV of 43.5%**
  - Mainstream residential, largely outside London and SE
  - Prudent credit decisioning prioritised over volume
  - New residential lending stressed at 300bps over SVR
- **No deterioration in credit seen across the portfolio; mortgage new to arrears continue to fall**

# Credit quality – consumer finance portfolio benefits from conservative underwriting and prudent assumptions



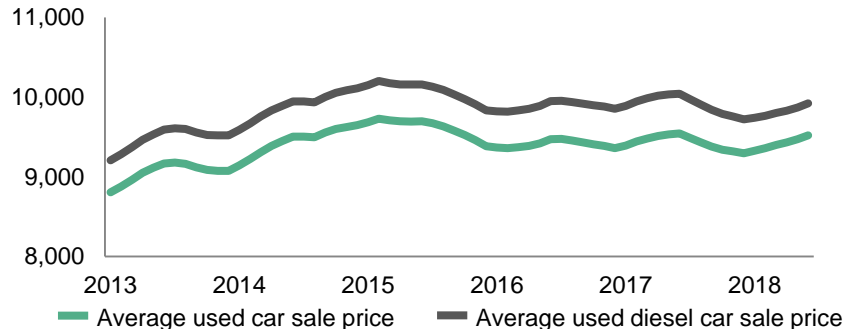
## Credit cards – new to arrears as proportion of total book

(%)



## Average used car prices<sup>(1)</sup>

(£)



- **Prime credit card book with conservative risk appetite**

- No deterioration seen across the portfolio
- New to arrears falling
- MBNA performing in line with expectations
- Prudent Effective Interest Rate accounting across credit cards with small deferred income asset

- **Prudent approach to Motor Finance**

- Used car prices remain resilient
- Continue to make a profit on sale of vehicles given prudent residual values
- Additional protection from c.£200m residual value / specific event provision

1 – Lex Autolease rolling six month average; excludes commercial vehicles.

## Significant growth in statutory profit and returns



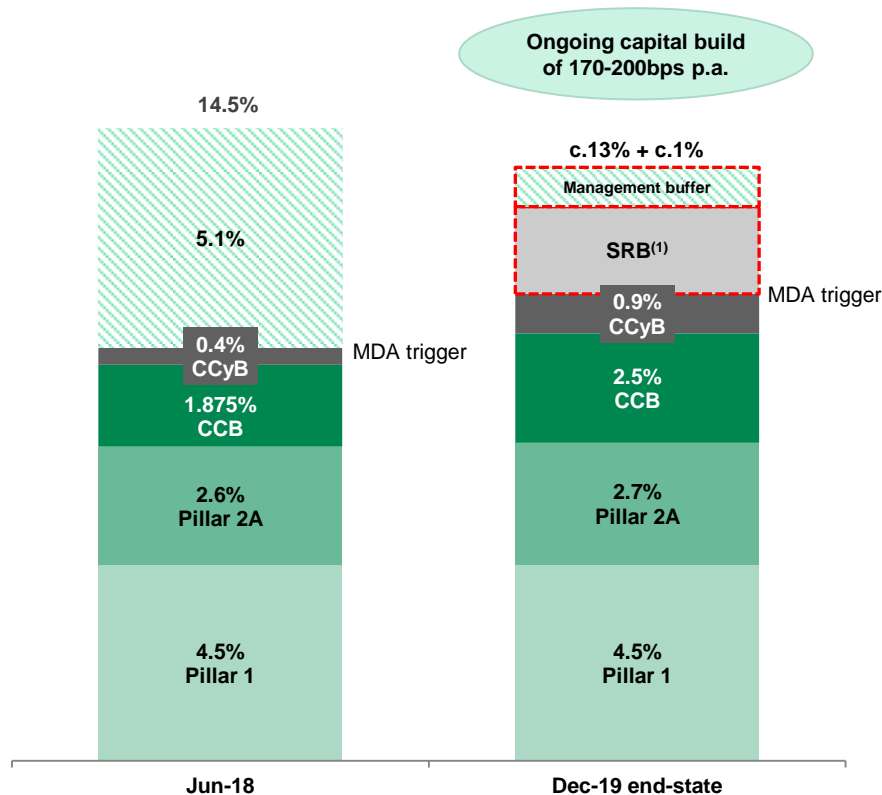
(£m)	H1 2018	H1 2017	Change
<b>Underlying profit</b>	<b>4,234</b>	3,952	7%
Volatility and other items	(190)	(37)	–
Restructuring costs	(377)	(321)	(17)%
PPI	(550)	(1,050)	48%
<b>Statutory profit before tax</b>	<b>3,117</b>	2,544	23%
Tax expense	(850)	(905)	6%
<b>Statutory profit after tax</b>	<b>2,267</b>	1,639	38%
Effective tax rate	27%	36%	(9)pp
Statutory RoTE	12.1%	8.2%	3.9pp
Earnings per share	2.9p	2.0p	45%

- **Statutory profit after tax of £2.3bn, up 38%**
- **Market volatility and other items includes £105m loss on sale of Irish mortgage portfolio**
- **Restructuring costs relating to severance of £155m, property rationalisation, ring-fencing spend and Zurich and MBNA integration costs**
- **PPI charge £550m; outstanding provision £2.0bn**
  - £460m charge in Q2 reflecting higher expected claim volumes (now assuming c.13,000 per week)
- **Effective tax rate of 27% lower than prior year due to lower non-deductible conduct charges**
- **Statutory return on tangible equity improved to 12.1%**
- **Earnings per share up 45% to 2.9p**

# Capital Position



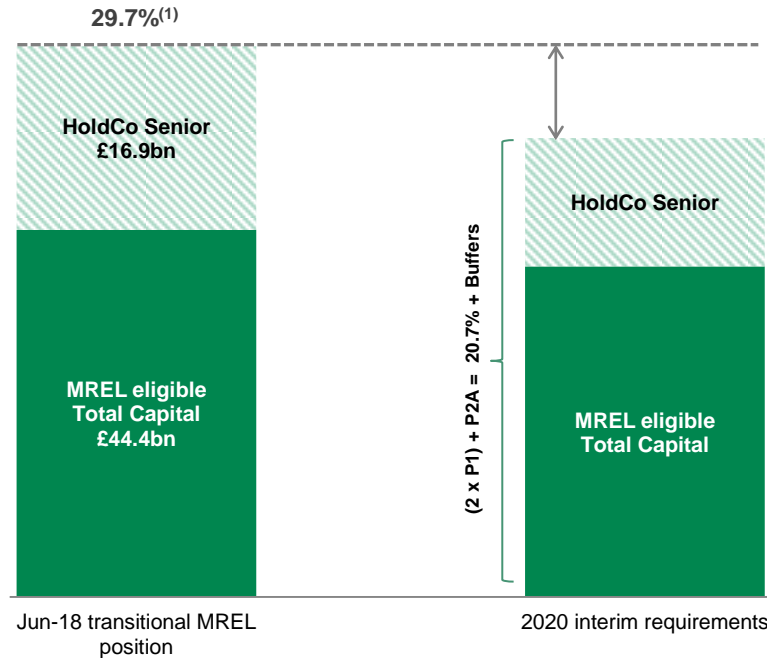
# Group continues to maintain strong buffers to current and fully loaded MDA requirements



- CET1 ratio of 14.5% post dividend accrual<sup>(2)</sup>; 121bps of CET1 build over H1 2018
- Capital build (pre-dividend) now expected to be around 200bps in 2018; ongoing build of 170-200bps p.a. thereafter
- CET1 target remains c.13% plus a management buffer of around 1%
- Pillar 2A CET1 requirement reduced to 2.6%<sup>(3)</sup>
- Total capital remains strong at 21.6%; UK leverage ratio of 5.3%<sup>(2)</sup>
- Distributable Reserves c. £8.5bn at FY 17

(1) Chart not to scale; Systemic Risk Buffer to be communicated by the PRA in early 2019 (applied via PRA Buffer). A failure to meet the PRA buffer could require a capital restoration plan, which may impose restrictions on discretionary payments, including interest payments on the Additional Tier 1 Securities (2) Fully loaded CET1 ratio and UK leverage ratio presented on a pro-forma basis, reflecting dividends declared by the Insurance business but paid in the subsequent reporting period and includes the impact of the sale of the Group's Irish mortgage portfolio. Total capital presented pre-Insurance dividend. (3) Pillar 2A CET1 requirement will increase to 2.7% from 1 Jan 2019 following the entry into force of the UK's ring-fencing regime.

# Group ahead of 2020 MREL requirements and on track for 2022



## Notes:

- Indicative interim MREL requirement of 20.7% plus buffers on the basis of 2018 TCR
- Indicative final MREL requirement of 25.4% plus buffers on the basis of 2018 TCR – to be confirmed following Bank of England review in 2020

- Strong total capital base supports continued MREL build
- Solid progress on MREL build in 2018; June 2018 pro forma transitional MREL ratio of 29.7%<sup>(1)</sup>
- S&P upgraded Lloyds Bank to 'A+' to recognise the Group's growing buffer of MREL debt

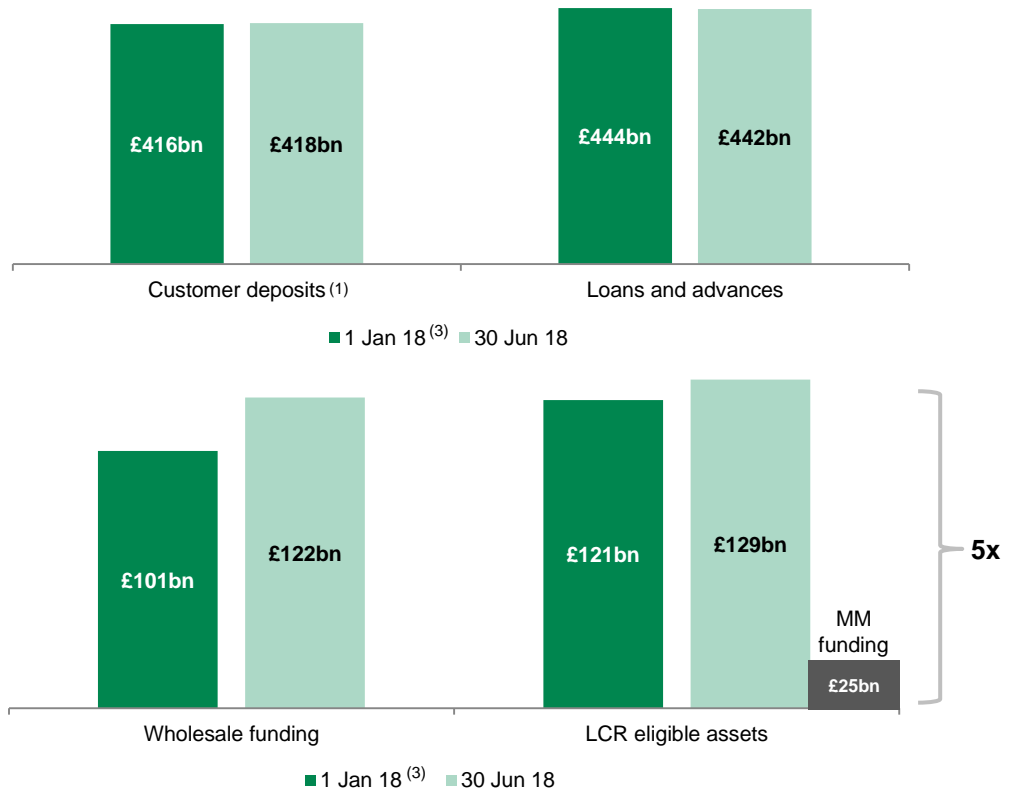
1 – Transitional MREL ratio presented on a pro-forma basis, reflecting dividends declared by the Insurance business but paid in the subsequent reporting period and includes the impact of the sale of the Group's Irish mortgage portfolio. MREL eligible Total Capital presented pre-insurance dividend and sale of the Group's Irish mortgage portfolio; MREL ratio on a non-pro forma basis is 29.1%.



# Liquidity, Funding & Credit Ratings



# Strong and stable funding and liquidity position



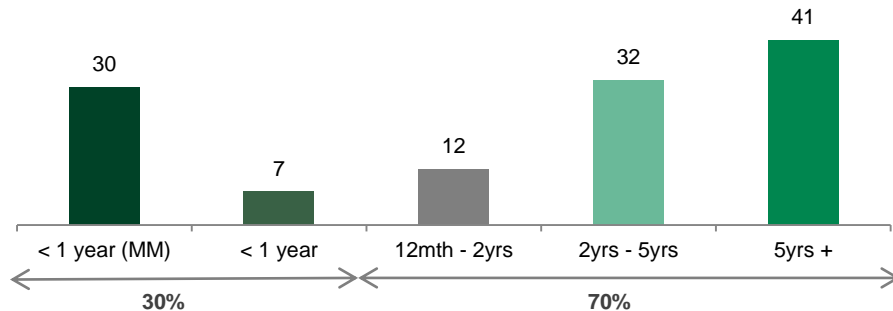
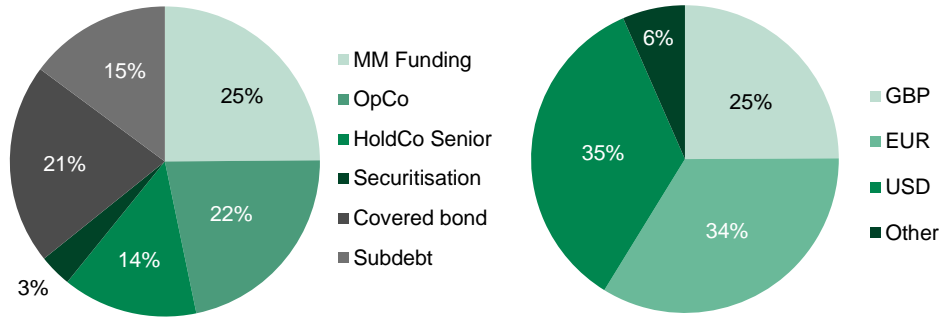
- Stable customer balance sheet
- LCR<sup>(2)</sup> increased to 129% in the short-term given ring-fencing transition; loan to deposit ratio of 106%
- LCR eligible assets represent over 5 times Money Markets funding
- Wholesale funding increased due to ring-fencing and repayment of FLS

1 – Deposits excludes repos.  
 2 – LCR based on EU Delegated Act; LCR has been prepared on a Group consolidated basis.  
 3 – Adjusted to reflect impact of applying IFRS 9.

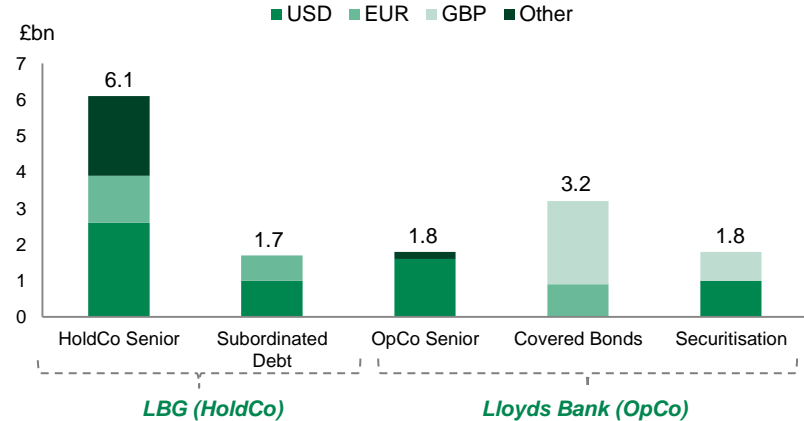
# Composition of wholesale funding as at 30 June 2018



## Product, currency and maturity – £122bn



## £14.6bn<sup>(1)</sup> Gross Term Issuance



- £6.1bn HoldCo Senior issuance in H1 2018
- Steady-state funding requirement of £15-20bn per annum
- Continue to diversify wholesale funding across currencies and platforms

<sup>1</sup> – £15.3bn gross term issuance 2018 YTD.

# Global issuance capability supported by strong credit ratings



LBG entity		Credit Rating			Product	Programmes	
		Moody's	S&P Global Ratings	Fitch Ratings			
HoldCo	Lloyds Banking Group	Long-term	<u>A3</u> / Stable	BBB+ / Stable	A+ / Stable	Senior Unsecured Subordinated debt	EMTN, SEC Registered Shelf, Kangaroo, Samurai
		Short-term	P-2	A-2	F1	-	-
Ring-fenced <sup>(1)</sup>	Lloyds Bank / Bank of Scotland	Long-term	<u>Aa3</u> / Stable	<u>A+</u> / Stable	A+ / Stable	Senior Unsecured Covered Bonds RMBS Credit Card ABS	GMTN, EMTN, SEC Registered Shelf, Kangaroo, Samurai, Uridashi Shelf, SSD, NSV
		Short-term	P-1	A-1	F1	Money Market (CD, CP)	ECP, USCP
Non-ring-fenced	LBCM	Long-term	<u>A1</u> / Stable	<u>A</u> / Stable	A / Stable	Senior Unsecured	<i>EMTN programme to be established</i>
		Short-term	P-1	<u>A-1</u>	F1	Money Market (CD, Yankee CD, CP)	ECP/CD, Yankee CD

(Green denotes positive movement in 2017/18)

1 – Excluding HBOS as it is no longer an active issuance entity.

# Environmental, Social and Governance overview (ESG)



## Helping Britain Prosper Plan priorities

	2018 <sup>(1)</sup>	2020 <sup>(2)</sup>	
<b>People</b> 	Lending to first time buyers	<b>£10bn</b>	<b>£30bn</b>
	Individuals, businesses and charities trained in digital skills	<b>700k</b>	<b>1.8m</b>
	Growth in assets managed in retirement and investment products <sup>(3)</sup>	<b>£8bn</b>	<b>£50bn</b>
<b>Businesses</b> 	Growth in net lending to start-up, SME and Mid Market businesses	<b>£2bn</b>	<b>£6bn</b>
	Charities supported by our £100m commitment to the Group's independent charitable Foundations	<b>2,500</b>	<b>7,500</b>
<b>Communities</b> 	Percentage of senior roles held by women	<b>36%</b>	<b>40%</b>
	Percentage of roles held by Black, Asian and Minority Ethnic colleagues	<b>8.9%</b>	<b>10%</b>

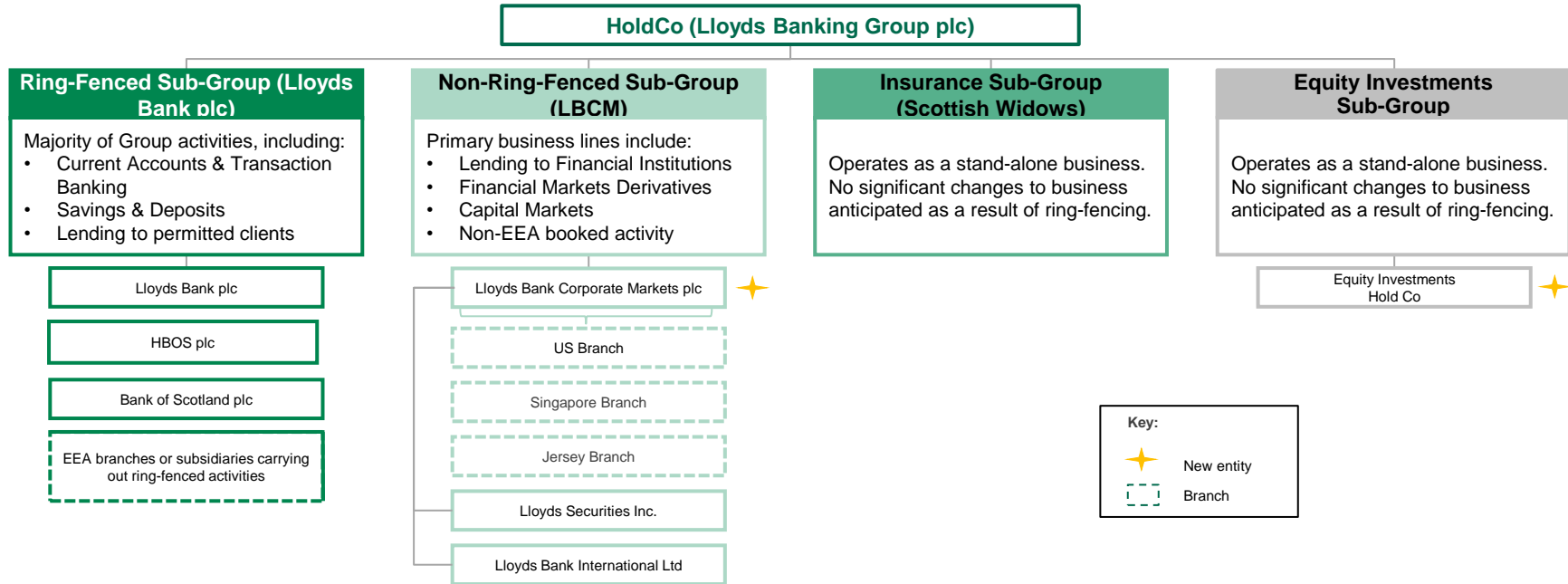
- The Group's success is inextricably linked to the British economy – ESG already a key part of our strategy
- Focus on being a responsible, sustainable and inclusive business
- Recognition across ESG segments:
  - Member of UK Green Finance taskforce
  - Euromoney Best Western Bank for Corporate Responsibility
  - Over 50% improvement in NPS since 2011
- Strong ESG ratings from most agencies although inconsistent methodologies result in significant variance

1 – Year end target. 2 – Cumulative from 2018. 3 – Growth in assets under administration in our open books.

# Structural Reform



# Structural changes required by ring-fencing almost complete



- **97% of Group's customer loans and advances remain within the ring-fenced bank**
- **Lloyds Bank Corporate Markets went live operationally in May 2018**
- **Moody's improved its final rating of LBCM to 'A1' from the initial prospective rating of 'A2' following a revision to their view of LBCM's importance to the wider Group**

# Appendix



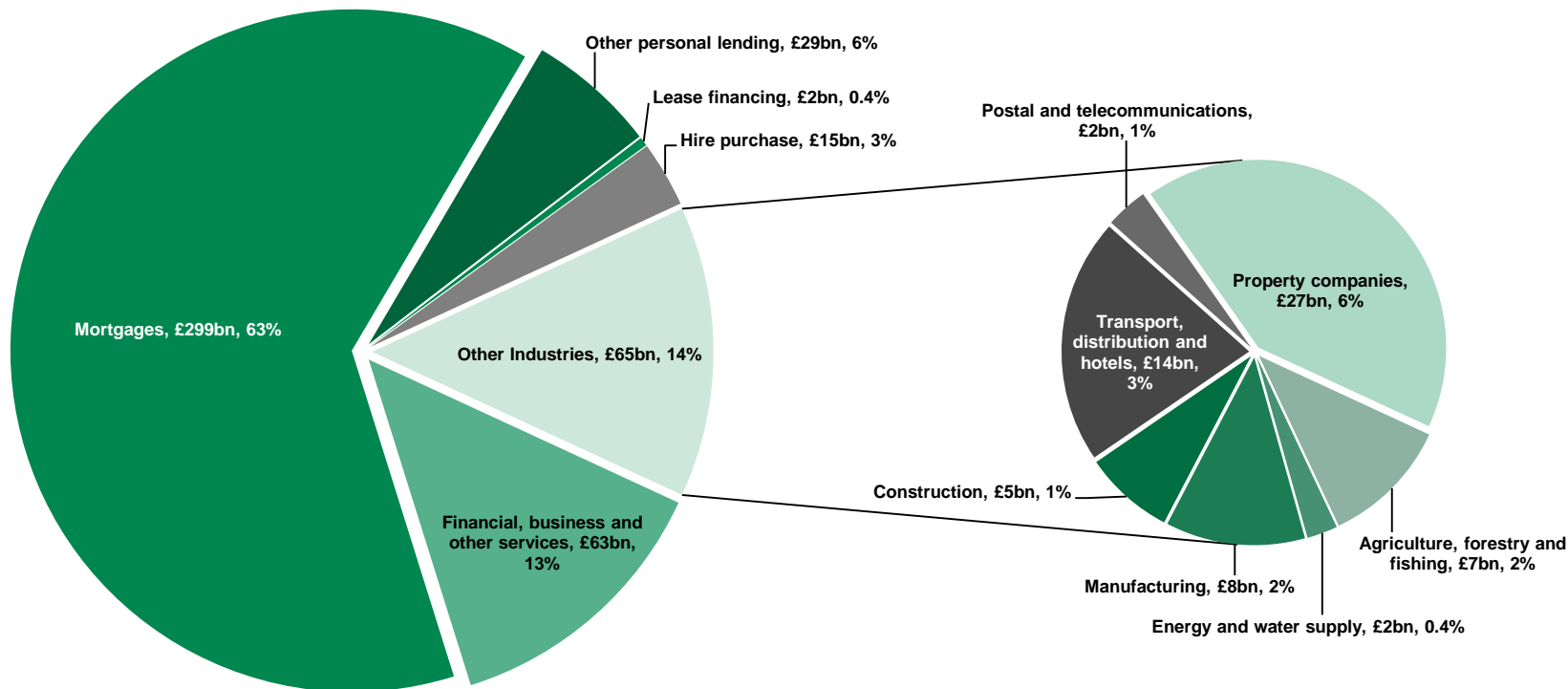


# Mortgage LTVs – further improvement in the first half of 2018



	Jun 2018				Dec 2017	Dec 2016	Dec 2010
	Mainstream	Buy to let	Specialist	Total	Total	Total	Total <sup>(1)</sup>
Average LTVs	41.7%	52.2%	46.2%	<b>43.5%</b>	<b>43.6%</b>	44.0%	55.6%
New business LTVs	63.2%	57.6%	n/a	<b>62.3%</b>	<b>63.0%</b>	64.4%	60.9%
≤ 80% LTV	87.7%	94.1%	88.6%	<b>88.8%</b>	<b>89.5%</b>	89.0%	57.0%
>80–90% LTV	9.9%	4.3%	6.2%	<b>8.7%</b>	<b>8.0%</b>	8.0%	16.2%
>90–100% LTV	2.0%	1.1%	2.1%	<b>1.9%</b>	<b>1.9%</b>	2.3%	13.6%
>100% LTV	0.4%	0.5%	3.1%	<b>0.6%</b>	<b>0.6%</b>	0.7%	13.2%
Value >80% LTV	<b>£27.7bn</b>	<b>£3.2bn</b>	<b>£1.7bn</b>	<b>£32.6bn</b>	<b>£30.7bn</b>	£32.4bn	£146.6bn
Value >100% LTV	<b>£0.9bn</b>	<b>£0.3bn</b>	<b>£0.5bn</b>	<b>£1.7bn</b>	<b>£1.8bn</b>	£2.1bn	£44.9bn

# Loans and Advances to Customers<sup>(1)</sup>



1 – Excludes allowances for impairment losses, and includes advances securitised under the Group's securitisation and covered bond programmes. Includes reverse repos of £26.7bn.

# Simple, low risk customer focused UK bank with strong multi-channel franchise



## Clear strategic plan

OUR PURPOSE

Helping Britain Prosper

OUR AIM

Best bank for Customers, Communities, Colleagues and Shareholders

OUR BUSINESS MODEL

Digitised, simple, low risk, customer focused, UK financial services provider

## Iconic brands serving over 27m retail customers

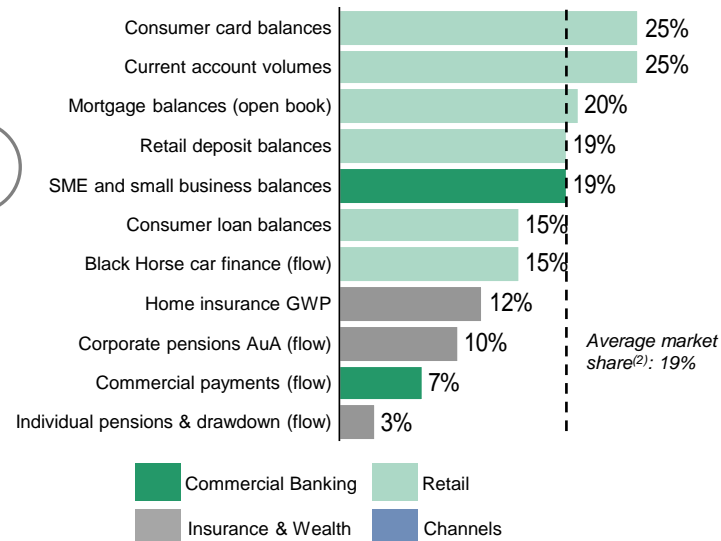


## Strong franchise across key channels and products

### Channels market share



### Product market share



<sup>1</sup> – Volumes across PCAs, loans, savings, cards and home insurance. <sup>2</sup> – Average market share calculated for 'core banking products': consumer cards, PCAs, mortgages, retail deposits, SME and small business balances, consumer loan balances, Black Horse car finance. Market data Sources: ABI, Bank of England, CACI, eBenchmarkers, Spence Johnson, UK Finance. All market shares as at December 2017 except individual pensions and drawdown (September 2017).



# Debt Investor Relations Contacts



Website: [www.lloydsbankinggroup.com/investors/fixed-income-investors](http://www.lloydsbankinggroup.com/investors/fixed-income-investors)

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# Forward looking statements and basis of presentation



## Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results of Lloyds Banking Group (the “Group”) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group’s or its directors’ and/or management’s beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group’s credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, instability as a result of the exit by the UK from the European Union (EU) and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group’s control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group’s control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group’s directors, management or employees including industrial action; changes to the Group’s post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today’s date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

## Basis of presentation

The results of the Group and its business are presented in this presentation on an underlying basis. The principles adopted in the preparation of the underlying basis of reporting are set out on the inside front cover of the 2018 Half-Year Results News Release.